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NEWS RELEASE

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NEW ENGLAND MARKET STRUCTURE MOVES FORWARD, COMMISSION GIVES ISO ADDITIONAL GUIDANCE

The Federal Energy Regulatory Commission acted today on a number of pricing elements and the operational framework that will move the New England area toward more efficient markets for wholesale energy and ancillary services.

The Commission approved certain market design elements, including a proposed congestion management system (CMS), for ISO New England. The ISO, which began operations in May 1999, runs the power grid and administers the wholesale electric power market for the six-state region.

In today's order, the Commission's actions included:

- Approval of a permanent CMS and multi-settlement system (MSS) which will help the ISO and its market participants plan more efficiently.
- In the ancillary services market, the Commission approved a three-part bid mechanism. The more flexible system will allow generators to better reflect costs and make it easier to meet load requirements at a minimum cost.
- Conditionally approved the ISO's proposal to develop a regional plan to expand the New England Power Pool system to meet transmission service requests.
- Accepting a plan for cost recovery for generator interconnections and transmission upgrades.
- Termination of the installed capacity (ICAP) auction market effective August 1, 2000.

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Chairman James J. Hoecker said: "Today's order demonstrates the importance of federal market oversight and the hard work it takes to create fair, workable markets. We asked the New England ISO to engage in fundamental market redesign, ISO New England responded and its markets can finally march ahead. We now look forward to how it approaches the RTO challenge."

The ISO currently operates six bid-based markets in real-time—amounts are paid to sellers and received from buyers on real-time transactions. Under the MSS approved by the Commission, the ISO would establish a two-settlement system that calls for a day-ahead market and a real-time market for energy and ancillary services. Separate prices would be determined for each market, with binding financial statements in each market.

The Commission said that the ISO needs a CMS that relies on market mechanisms to establish price signals so that where there is constrained transmission it may be better allocated. In addition, appropriate price signals would give generators an incentive to locate in suitable areas. The ISO's CMS proposal is based on locational marginal prices, the Commission said, similar to the system employed in the New York and PJM ISOs.

The Commission expressed concern that implementation of the CMS would not be in place for almost two years. The Commission directed the ISO to explain the delay in implementing its CMS proposal within 30 days of today's order. In the interim, the ISO was directed to continue its current system which allocates costs on a pro rata basis to all NEPOOL participants.